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UNCLAS LILONGWE 000348

SIPDIS

SENSITIVE

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JOHANNESBURG FOR FCS
MCC FOR KEVIN SABA

E.O. 12958: N/A
TAGS: EFIN EINV ECON MI
SUBJECT: IMF MALAWI PROGRAM DEPENDS ON FOOD SOLUTION

REF: LILONGWE 198

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SUMMARY

¶1. (U) As the IMF's team comes to negotiate a new program for Malawi, it is clear that the central issue is food. The poor crop is expected to lower GDP to 0-2 percent, and food-driven inflation is already rising. The need for humanitarian relief has become clear, and one of the main points to be negotiated is the size and nature of the GOM's response. End summary.

¶2. (U) The International Monetary Fund's Malawi team arrived in Lilongwe early this week hoping to conclude negotiations for a new Poverty Reduction and Growth Facility (PRGF). As reported in reftel, both parties agreed in March to suspend negotiations until the country's food situation could be clarified enough for budget purposes. With second-round crop estimates showing a clear need for a humanitarian food program, it is hoped the GOM will be able to quantify the budget impact of its food needs enough to conclude talks with the IMF.

¶3. (SBU) The IMF's initial look at economic performance is encouraging, considering the circumstances. On account of the poor maize crop, the IMF expects to revise its GDP projections for 2005 down to 0-2 percent. Inflation has edged up to 14.9 percent, mainly because food prices have not experienced their usual seasonal drop as the harvest comes in. Budget performance for the past quarter is on target despite lower donor revenue than in the previous two quarters. However, foreign reserves are very low, with about one month of reserves on hand. GOM has cancelled its earlier plans to sell some foreign currency to absorb Kwacha liquidity, opting instead to maintain the meager reserves it has.

¶4. (SBU) In the IMF team's view, the lack of foreign currency should preclude any large government-funded grain importations. But the budget drafts the GOM has shown the team indicate plans to import 100,000 metric tons of maize, at a cost of MK3.5 billion ($32 million), for resale during the upcoming fiscal year (July-June). The team has not discussed the details of the plan, nor has the GOM shared any plans with donors.

COMMENT

¶5. (SBU) The PRGF discussions hinge almost entirely on the GOM's plans for food security. Up to now, the GOM has characterized the situation as a nationwide food shortage, while donors think of it as local humanitarian needs developing as the season progresses. The proposed solutions are accordingly out of phase: GOM appears to want to import maize for commercial sale in order to keep prices down; donors want to let the commercial price float, creating incentives for commercial traders to import grain into the country.

¶6. (SBU) Meanwhile, there is a standoff about humanitarian assistance. Most donors (including the USG) cannot commit firm numbers for humanitarian assistance in advance. The GOM would clearly like to see donors address the humanitarian problem, leaving the GOM free to intervene with commercial imports to hold prices down--a politically popular approach. (A similar intervention in 2001/2 resulted in disastrously high prices and acute shortages.) At this point, it appears that donors cannot give the assurance the GOM is looking for to excuse itself from humanitarian relief efforts. With the IMF insisting on a fiscally responsible solution, the GOM may

have less than a week to redefine how it thinks about food crises.
GILMOUR